

## CHAPTER 1

### INTRODUCTION

#### 1.1 THE CONCEPT OF TOTAL PACKAGES

1.1.1 The underlying philosophy of any comparison between civil service and private sector remuneration is that the total packages received by employees in both sectors should be taken into account. This approach was first advocated by us in a letter dated 27 November 1981 from the Chairman of the Standing Commission to H.E. the Governor. That letter contained, inter alia, the following statement :

".... It is essential that future arrangements for determining the general levels of civil service pay should take into account the total package of pay and other benefits in both the civil service and the private sector."

1.1.2 In our Interim Report on Civil Service Pay Policy (Report No. 7), published in March 1982, we recommended that the total package concept should be adopted for the purpose of conducting future pay comparisons between the public and private sectors. We reiterated our conviction in our Second Report on Civil Service Pay Policy (Report No. 9), published in December 1982, and our recommendation was accepted by the Governor-in-Council on 16 March 1983. We then asked the Government to address the question of which fringe benefits should be included in total packages and how they should be valued.

#### 1.2 THE WORKING GROUP AND THE PAY RESEARCH ADVISORY COMMITTEE ON FRINGE BENEFITS

1.2.1 The Government accordingly set up a Working Group on the Valuation of Benefits for Pay Level Surveys, comprising representatives of the Administration and members of the main staff councils. The Working Group submitted its report to the Administration in May 1984, who referred it to us for consideration.

1.2.2 In July 1984, we established a Committee, the Pay Research Advisory Committee (PRAC), to examine the recommendations of the Working Group in detail before we formulated our own recommendations. The PRAC's terms of reference and a list of members are at Appendices III and IV, respectively. In order to obtain professional input into the exercise, the PRAC engaged a firm of consultants, Towers, Perrin, Forster and Crosby Inc. (TPF & C), in December 1985,

to advise on specific issues, and, in particular, the development of a practical and viable method of valuing certain benefits to be included in total packages for the purpose of pay comparisons. At the same time, preparatory work had already commenced with a view to conducting the first Pay Level Survey in 1987/88, in accordance with the original schedule.

### 1.3 THE DIRECTORATE PAY INCREASE IN AUGUST 1985

1.3.1 In August 1985, the Administration increased Directorate salaries by 6.4% to 13.5%, on the basis of a recommendation by the Standing Committee on Directorate Salaries and Conditions of Service. The Standing Committee's recommendation resulted from a survey which it had conducted into Directorate salaries and certain fringe benefits. The results of the survey were not published, but they were said to have indicated that Directorate salaries in the civil service had fallen behind those in the private sector.

1.3.2 The Directorate salary increase gave rise to demands from non-Directorate civil servants for similar increases, and we were therefore asked by the Administration to advise whether such increases were warranted. Since a pay level survey of both pay and benefits would take some time to complete, we made, as an interim measure, a cumulative comparison of Pay Trend Indicators and actual pay awards during the period 1979/80 to 1984/85.

1.3.3 Our findings were submitted to H.E. the Governor on 20 December 1985 and the Government subsequently offered to increase non-Directorate salaries by 2%, later adjusted to 2.7%, on the understanding that a full pay level survey would follow as soon as possible.

### 1.4 THE ORDER OF THE GOVERNOR-IN-COUNCIL

1.4.1 At a meeting of the Executive Council on 28 January 1986, the Council advised and the Governor ordered, inter alia, that the pay level surveys for Directorate and non-Directorate staff should be synchronized. At a further meeting on 4 February 1986, it was decided that a pay level survey should be conducted within the next financial year.

1.4.2 These orders were conveyed to us on 10 March 1986 and, in view of the large amount of work which had to be completed in a relatively short period of time, the programme for the Pay Level Survey was duly accelerated.

1.4.3 A full account of the decisions of the Governor-in-Council is given in paragraphs 2.1.1 and 2.1.2.

#### 1.5 THE CONSULTATIVE DOCUMENT ON THE PAY LEVEL SURVEY

1.5.1 At our meeting on 25 March 1986, we decided that the consultative process on the Pay Level Survey should be set in motion as soon as possible by issuing a Consultative Document to all parties who were likely to be interested in the methodology for the survey. Such a document was accordingly published by us on 4 April 1986 and a total of 120 replies was received. All these comments were carefully considered by us before we formulated our recommendations on the methodology in our First Report on the Pay Level Survey (Report No. 16).

#### 1.6 THE ENGAGEMENT OF HAY MANAGEMENT CONSULTANTS (HONG KONG) LTD. (HAY)

1.6.1 In order to ensure that the Pay Level Survey was conducted as comprehensively and as fairly as possible, we felt that it was necessary to commission an independent professional consultancy firm, to suggest a viable methodology and also to undertake the survey itself. The firm eventually chosen was Hay Management Consultants (Hong Kong) Ltd. A full description of the reasons for this choice and the special features of their approach is given in Chapter 3.

#### 1.7 THE STEERING GROUP ON THE PAY LEVEL SURVEY

1.7.1 A Steering Group on the Pay Level Survey, chaired by our Member, Mr. Gordon M. Macwhinnie, and staffed by members of the Commission Secretariat and the Pay Survey and Research Unit, was set up to guide Hay in their work and to monitor the progress of the survey. The Steering Group met at regular intervals throughout the Pay Level Survey, holding 30 meetings in all.

#### 1.8 THE ESTABLISHMENT OF THE PAY LEVEL SURVEY ADVISORY COMMITTEE AND ITS FIRST SERIES OF MEETINGS

1.8.1 In recognition of the need to gather as many views as possible, the Pay Level Survey Advisory Committee (PLSAC) was established, also under the chairmanship of Mr. Gordon M. Macwhinnie. The PLSAC was composed of a very wide range of interested parties, including representatives of the civil service staff associations, the Administration and employers' associations from the private sector. Its brief was to advise us on matters relating to the Pay Level Survey, particularly Hay's methodology for pay comparisons, the selection of grades for job and pay comparisons, the analysis and interpretation of the results of the Pay Level

Survey, the PRAC's Report on the Valuation of Fringe Benefits and any other matters on which we asked for its views. The terms of reference of the PLSAC and a list of its members are included at Appendices V and VI, respectively.

1.8.2 The PLSAC held two series of meetings. The first series of six meetings, from 2 June to 7 July 1986, acted as a forum for the discussion of the PRAC's Report on the Valuation of Fringe Benefits and Hay's proposals for the Pay Level Survey methodology. A second series of seven meetings was held between 24 November 1986 and 12 January 1987, to consider the findings of the Pay Level Survey as presented in Hay's initial report. This second series of meetings is described further in paragraphs 1.10.1 to 1.10.5.

### 1.9 THE FIRST REPORT ON THE PAY LEVEL SURVEY (REPORT NO. 16)

1.9.1 In paragraph 1.2.2, we have recounted how the consultancy firm, TPF & C, was commissioned by the PRAC to advise on specific issues concerning the valuation of fringe benefits. In March 1986, TPF & C submitted a report on their findings to the PRAC, which, after deliberation, then submitted its own report to us in May 1986. We decided to refer the PRAC's report to the PLSAC, for discussion during its first series of meetings in mid-1986. Having considered the contents of the PRAC's report, together with Hay's initial proposals relating to the methodology for job evaluation, the PLSAC subsequently compiled its own first report on the Pay Level Survey, incorporating all the views expressed during its first series of meetings. This report was presented to us on 9 July 1986.

1.9.2 Having taken into account the views expressed at the meetings of the PLSAC, we formulated our recommendations on the methodology to be used for the 1986 Pay Level Survey. Our recommendations, together with the views expressed by all concerned parties during the consultation period, were recorded in full in our First Report on the Pay Level Survey (Report No. 16), which was submitted to H.E. the Governor on 14 July 1986.

1.9.3 In a letter to the Chairman of the Standing Commission, dated 14 August 1986, the Acting Governor gave his general endorsement of the methodology recommended by us in Report No. 16, subject to a few modifications. These modifications are described in detail in Chapters 4 and 5.

1.9.4 After receiving the Government's endorsement of the methodology which we had recommended, we immediately instructed Hay to commence work on the Pay Level Survey.

1.10 HAY'S INITIAL FINDINGS AND THE PAY LEVEL SURVEY ADVISORY  
COMMITTEE'S SECOND SERIES OF MEETINGS

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1.10.1 Hay presented their initial report on the Pay Level Survey to us at our meeting on 13 November 1986. The same report was presented to the PLSAC at the first of its second series of seven meetings, on 24 November 1986. Discussion of the findings of the Pay Level Survey, together with resumed consideration of the methodology used, took place during these meetings. The views expressed by PLSAC members and the resultant changes to the methodology which was used are summarized in Chapters 6 and 7.

1.10.2 Following the seventh PLSAC meeting (the first meeting of the second series) on 24 November 1986, the Police Force Council (Staff Side) decided to withdraw its representatives from the PLSAC, because it did not wish to be involved in the controversy which was associated with the Pay Level Survey. This decision was conveyed to the Secretary-General of the Standing Commission in a letter dated 28 November 1986, a copy of which can be found at Annex C to Appendix VII. However, an observer from the Official Side of the Police Force Council continued to attend meetings of the PLSAC for the duration of the consultation period.

1.10.3 Senior Civil Service Council representatives, having attended all meetings of the PLSAC up to and including the tenth, held on 15 December 1986, also announced their decision, at the meeting on 29 December 1986, not to attend further meetings of the PLSAC. A letter from the Staff Side Chairman of the Council, dated 29 December 1986, setting out the reasons for the withdrawal of the Council, was presented to the PLSAC Chairman during the meeting. A copy of this letter is at Annex D to Appendix VII.

1.10.4 A further letter from the Staff Side Chairman of the Senior Civil Service Council, dated 7 January 1987, was received by the Chairman of the PLSAC, requesting the deletion of all comments made by Senior Civil Service Council representatives at PLSAC meetings from the PLSAC's Second Report on the Pay Level Survey. However, the Chairman of the PLSAC, having considered this request, saw no reason to accede to it, and the PLSAC proceeded to draft its second report based on the agreed minutes of PLSAC meetings.

1.10.5 The PLSAC presented its second report to us on 20 January 1987 and this report is reproduced at Appendix VII.

1.11 HAY'S FINAL REPORT ON THE PAY LEVEL SURVEY

1.11.1 Taking account of the views expressed during the second series of meetings of the PLSAC, Hay revised their initial report and presented a final report to us on 20 January 1987. Some aspects of the findings in Hay's final report differed from those contained in their initial report (see paragraph 1.10.1), as a result of some amendments made during the intervening period to the method of data collection and the basis of calculation, as recommended by members of the PLSAC and to which we agreed. The full text of Hay's final report is reproduced at Appendix VIII and a summary of their findings may be found in Chapter 8 of this Report.